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1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

3 FASHION GROUP, LLC,

4 Plaintiff,

5 v.

18 Cv. 2959 (PGG)

6 JOHNNY'S SIGNATURE, INC., et al.,

7 Defendants.

8 -----x  
9 May 23, 2018  
5:15 p.m.

10 Before:

11 HON. PAUL G. GARDEPHE,

12 District Judge

13 APPEARANCES

14 WILSON KEADJIAN BROWNDORF LLP

15 Attorneys for Plaintiff

16 BY: JONATHAN J. FAUST

17 LAZARUS & LAZARUS

Attorneys for Johnny Defendants

18 BY: HARLAN M. LAZARUS

19 KORNFELD & ASSOCIATES P.C.

Attorneys for Bilco Defendants and Burton Chen

20 BY: RANDY M. KORNFELD  
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22  
23  
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I5N8FASC

(Case called)

THE DEPUTY CLERK: Plaintiff ready?

MR. FAUST: John Faust, Wilson Keadjian Browndorf, for plaintiff. Ready, your Honor.

THE DEPUTY CLERK: Defendant ready?

MR. KORNFELD: Kornfeld & Associates, PC, by Randy Kornfeld, for the Bilco defendants and Mr. Chen.

MR. LAZARUS: Harlan Lazarus for the remaining defendants.

THE COURT: All right. I thought there was some effort ongoing to try to settle this case. It's unclear to me what the status of those efforts are. Is it the parties' wish that I rule on the pending application for preliminary injunction because I am prepared to do that. On the other hand, if the parties are moving towards settlement, it might be wasteful. So what is going on?

MR. FAUST: We have had some discussions with defense counsel, not necessarily about resolving the case in toto, but in terms of what to do about the inventory that the defendants currently have. We have been in discussions. We have hit some impasse as to how to handle that. My client is prepared to allow the defendants to dispose of that inventory, provided that my client's interests are protected. We have reached agreement on some of those issues, but on others we haven't. So we are not in a position to tell the Court that there is a

I5N8FASC

1 resolution.

2 I would also respectfully state that if the Court were  
3 to rule on the injunction and were to grant the injunction, my  
4 client would still be willing to discuss a reasonable  
5 resolution with the defendants, notwithstanding the fact that  
6 the goods are enjoined.

7 THE COURT: What is the defendants' position?

8 MR. LAZARUS: Your Honor, as I said a moment ago, I  
9 represent the remaining defendants, which in particular are  
10 what I have called, in general, the Johnny defendants. Despite  
11 their names, these defendants are lenders, and as lenders, they  
12 have financed the purchase of the inventory from these  
13 manufacturers, and in some instances loaned against the  
14 accounts receivable.

15 The totals involved are in the multimillion dollars,  
16 and the issue with respect to all of the defendants today, to  
17 be clear again, as to the preliminary injunction, there is no  
18 opposition whatever, except we would like the injunction to  
19 carve out our right, the defendants' rights and my lender  
20 clients' rights, to relabel the garments and sell them, so as  
21 not to precipitate a disaster for either the lender or for the  
22 manufacturing defendants.

23 As counsel has indicated, we are at an impasse as to  
24 that issue, but that issue alone, in terms of resolving the  
25 preliminary injunction. So to that extent, your Honor, of

I5N8FASC

1 course it's not necessary for you to rule on the injunction; we  
2 consent to it, with the carve-out on the issue of our right to  
3 relabel. As counsel knows, and would acknowledge I'm certain,  
4 we have offered the goods up for inspection. I am not sure why  
5 they need to be inspected, but if they want to look, they can  
6 look. If they want some level of proof that they have been  
7 reticketed, relabeled, we will give them that level of proof.

8 But the issue with respect to something over and above  
9 that is an issue as to the plaintiff's entitlement ultimately  
10 to money damages, because the impasse is with respect to what  
11 happens to the sale proceeds if the sale is made. In terms of  
12 our discussions, that's where the impasse is, and I have  
13 suggested that, as to that issue, we would want a hearing as to  
14 whether the injunction should go that far, because we think  
15 it's certainly appropriate that the injunction enjoin us from  
16 selling mislabeled goods, but I don't see, and we have had  
17 discussions, why the injunction should prevent us from  
18 relabeling the goods and doing with the proceeds that which we  
19 would normally do with the proceeds. The lender needs to  
20 recover its money.

21 That's where the impasse is. As I said, we can agree  
22 to everything in the requested injunction, but if we are going  
23 to have a hearing, we are going to need a hearing on the  
24 damages issue or the right to enjoin us from using those  
25 proceeds, because we don't think it's appropriate. We also

I5N8FASC

1 don't think, and Mr. Kornfeld will address it, that they can  
2 show a likelihood of success as to a monetary damage claim in  
3 the many millions of dollars.

4 MR. FAUST: May I respond?

5 THE COURT: I guess the first question is, do you  
6 object to them relabeling the clothing accurately?

7 MR. FAUST: We have no problem with them relabeling  
8 the clothing. Our issue is couple-fold.

9 First, one of the terms is that we believe that if we  
10 can reach agreement that they sell the goods, they can recoup  
11 their cost, but any profits should be escrowed or held aside.  
12 And I would submit to your Honor that the case law, we believe,  
13 is crystal clear that injunctions, in Lanham Act false  
14 advertising cases and related cases, holds that an injunction  
15 freezing inventory in aid of equitable claims, such as an  
16 accounting or disgorgement of defendants' profits, which is  
17 what we seek here, is perfectly appropriate. That's to respond  
18 to your Honor's question directly.

19 I would also submit, as your Honor made crystal clear  
20 in the prior case, your Honor is considering the matter,  
21 arguments, etc. that were presented to the Court already. Some  
22 of these issues are issues that I am encountering for the first  
23 time. For example, the notion of a disaster that the  
24 defendants face, I would submit it's a disaster of their own  
25 making. If they didn't sell mislabeled goods, they wouldn't be

I5N8FASC

1 in this situation. The notion that the Johnny defendants may  
2 have some type of interest in the goods, I just learned that in  
3 the hallway a few moments ago.

4 We had asked for testing, and counsel correctly states  
5 that, when we were outside a moment ago, they offered it. But  
6 our position is, and remains, we caught the defendants  
7 mislabeling goods. We have rights that attach, which include  
8 disgorgement of their profits. And we believe the case law is  
9 clear -- I can give your Honor some citations as I recall them,  
10 or they can be later submitted -- that injunctions in aid of  
11 equitable relief are totally appropriate and proper precisely  
12 where there is a Lanham Act claim or the defendant seeks an  
13 accounting.

14 Going back to the issues that your Honor had asked us  
15 about, we don't see a big benefit to anybody just having goods  
16 getting moldy in a warehouse. Number one, we want those  
17 profits secured, which means an understanding of what they  
18 claim their profit margin to be on the sale of the goods. We  
19 also submit that the goods should be sold in different channels  
20 of distribution. One of our concerns is the defendants' entire  
21 business -- there is case law I can quote -- was built -- they  
22 got their toehold in the industry through their mislabeling.  
23 They got introductions and relationships with retailers because  
24 they were able to underprice everyone. Why did they  
25 underprice? Because they were mislabeling. Our concern is, if

I5N8FASC

1 we allow them to sell the correctly labeled goods back to the  
2 same retailers at discounted prices, that's just enhancing  
3 relationships that they developed through illicit means,  
4 currying favor with retailers.

5 My understanding in copyright or other trademark  
6 infringement cases is the defendant doesn't get to say, OK, you  
7 caught me, I will take off the false label and now I can sell.  
8 Typically, what happens is those goods are donated or  
9 destroyed. We are not suggesting they need to be donated or  
10 destroyed. We just don't want them to continue to benefit,  
11 albeit in a different way, from the illicit goods. I can give  
12 your Honor a list of the conditions or the terms that we had  
13 proposed, if you'd like, but I think those are the two big  
14 stumbling blocks.

15 MR. LAZARUS: Very briefly, your Honor.

16 THE COURT: I am getting the sense, and you tell me if  
17 I am wrong, I am getting the sense we are kind of at an  
18 impasse. I don't know whether we are or not, but what I am  
19 hearing from Mr. Faust is he has certain things he wants, and  
20 what I am hearing from you is, at least at present, I don't  
21 think you're prepared to give him what he wants. So I am  
22 starting to get the sense that there might be an impasse.

23 Anyway, go ahead.

24 MR. LAZARUS: First, to be very clear, we are willing  
25 to give something to the plaintiff by way of what I am going to

I5N8FASC

1 call collateral.

2 Just one brief remark. Several weeks ago, in fact, I  
3 gave counsel the loan documents, which very clearly provide  
4 that the lender has a security interest in all of the goods  
5 involved, etc. So to say he just learned of it is somewhat a  
6 skewed remark.

7 Second, in terms of the disgorgement of profits from  
8 illegal goods, if the returned goods -- mind you, your Honor,  
9 that's what we are talking about. These goods were principally  
10 at Burlington stores and Ross stores. They have returned them  
11 to the manufacturers, subject to the lender's lien, and there  
12 are no profits because we didn't get paid. Nobody got paid.  
13 And if the goods are relabeled properly, there's no profits  
14 from illegal goods. So the argument that we shouldn't be  
15 allowed to profit from illegal goods is perhaps apt, but once  
16 they are relabeled, they are no longer illegal.

17 Those realistically are what our points are. We would  
18 love to work something out, but standing here before you, I  
19 agree we are at somewhat of an impasse and, realistically, I am  
20 almost thinking, perhaps with your Honor's guidance, we could  
21 come to some sort of consensual agreement on this issue.  
22 That's why I am making the pitch.

23 THE COURT: Well, ordinarily I don't get involved in  
24 settlement discussions because the parties are generally  
25 uncomfortable with that. So if you needed the involvement of a



I5N8FASC

1 third party, it would be my typical practice to refer you to  
2 the assigned magistrate judge, which I am happy to do.

3 So, really, I need to know from the lawyers whether  
4 they want to take another stab at trying to resolve this,  
5 either between themselves or in front of the magistrate judge,  
6 or whether you want me to rule on the motion. I am at your  
7 service. Just tell me what you want.

8 MR. KORNFELD: From our standpoint, your Honor, we  
9 definitely would like to take another stab. I am not saying  
10 that we are close and we haven't reached at least a partial  
11 impasse. I think a lot of what counsel is asking for is what  
12 he would be entitled to if he won his case, but not at this  
13 juncture, and I think the cases in the circuit support that.  
14 Some of the requests he is making I believe are premature. I  
15 don't know that he can tell us who we can or cannot sell  
16 correctly labeled goods to once they are in fact relabeled, and  
17 what channels of distribution we should use. The fact of the  
18 matter is there are only limited outlets for these goods. Ross  
19 and Burlington are two of the most favorable, and to prohibit  
20 us from selling relabeled goods to those substantial entities,  
21 it would greatly hamper the resale of those goods, and that is  
22 not to anybody's benefit.

23 I would certainly get on board with trying some more  
24 to see if we could fashion some sort of preliminary remedy that  
25 makes everybody somewhat happy so that we can move forward in

I5N8FASC

1 the case in chief or settle it.

2 THE COURT: What do you say, Mr. Faust, are you  
3 interested in trying to bring this to resolution through  
4 settlement? It sounds like it would have to be in front of the  
5 magistrate judge.

6 MR. FAUST: I am certainly amenable to trying to work  
7 through a resolution. As I have mentioned, we believe that we  
8 are entitled to relief, monetary and otherwise, that would be  
9 best served by the goods ultimately being sold, monetized. I  
10 don't believe that a ruling -- were your Honor to grant the  
11 injunction -- prevents that, because we remain equally ready to  
12 discuss a resolution, even were a preliminary injunction to  
13 issue, just like we were prepared to discuss a resolution  
14 during the pendency of this motion.

15 I would again just reiterate that injunctions in aid  
16 of equitable relief are entirely proper. Injunctions freezing  
17 inventory, where the plaintiff seeks an accounting and  
18 disgorgement of profit, is absolutely appropriate. There is  
19 Second Circuit case law. There is Southern District case law.  
20 Judge Rakoff recently decided a case to that end. So I don't  
21 believe we are asking for anything we are not entitled to. We  
22 can certainly brief that issue, but the case law, we believe,  
23 is crystal clear that injunctions, to protect the inventory and  
24 freeze the inventory, are absolutely proper. I can give your  
25 Honor a couple of citations I have if you're so inclined.

I5N8FASC

1           THE COURT: No, I don't think I need to see any  
2 authority on that point.

3           So just to bring the matter to a head, what I am  
4 hearing from your adversaries is that they would be interested  
5 in having more discussions with you to try to reach a  
6 negotiated resolution, perhaps with the involvement of a  
7 magistrate judge. So the question is really whether you are  
8 agreeable to that or whether you want me to rule on your motion  
9 today, which I am prepared to do. But I am also prepared to do  
10 a referral today to Judge Moses, who is the assigned magistrate  
11 judge, and I am sure that she could get you on her calendar,  
12 and maybe you can reach a negotiated resolution. It won't be  
13 one that pleases everybody, because no settlement is entirely  
14 satisfactory to both sides, but my sense is, from hearing  
15 everybody, to be honest, I suspect if you got in front of  
16 Magistrate Judge Moses, I suspect you could bring this thing to  
17 a close.

18           Again, just tell me what you want. I am prepared to  
19 rule today on the motion. I am also prepared to do a referral  
20 to Magistrate Judge Moses today. And I am prepared to do both  
21 I guess. I am prepared to rule on the motion and do a referral  
22 to the magistrate judge, if that's what the parties want. You  
23 have got to tell me what you want.

24           MR. FAUST: I would suggest a ruling and a referral.  
25 If we can work it out, we can work it out. I am incentivized

I5N8FASC

1 to work it out because inventory locked in a warehouse doesn't  
2 do anybody any good. But, with respect, preparing to come down  
3 here every few weeks doesn't do the parties any great service  
4 either.

5 THE COURT: Sir, something else you wanted to say?

6 MR. LAZARUS: If you're going to rule, I would  
7 specifically ask that you carve out from the injunction, if  
8 that's the way your ruling goes, a provision that allows the  
9 plaintiff to come in, look at what we have, and then allows us  
10 to relabel it, with a full accounting down the road of profits  
11 and losses and the like. But there would be, as counsel has  
12 acknowledged, no particular benefit in these goods sitting in a  
13 warehouse, and I think he said growing mold. So we are  
14 prepared to accept your ruling, but I think that under all of  
15 these circumstances, at this early stage, it is appropriate to  
16 allow us to relabel the goods.

17 I also want to just very briefly address the relative  
18 guilt, if you will, of the clients. I would put witnesses on  
19 should we have the opportunity and will have the opportunity.  
20 The fault lies overseas with the factories that we buy the  
21 goods from, with purchase orders that say they should be a  
22 particular fiber content, and then they come to us and they get  
23 into the stores, and then we get into a mess. But as I said,  
24 your Honor, the bottom line is what we would like, in  
25 particular, is to have any injunction your Honor might issue be

I5N8FASC

1 limited to future acts, and as to this inventory, after  
2 allowing plaintiff to inspect, to require us to account, that  
3 we should be able to relabel and move forward.

4 MR. FAUST: Your Honor, just responding briefly. The  
5 notion that defendants want to blame overseas suppliers or  
6 factories, as your Honor also mentioned in the prior case,  
7 counsel statements don't constitute admissible evidence. Also,  
8 with all due respect, it defies credulity. We are talking  
9 about multiple brands, but from different retailers on  
10 different days; this wasn't just one lot of one particular  
11 brand of product. Perhaps there is ultimate issues as to who  
12 is responsible, or how far this goes remains to be seen, but I  
13 don't believe that counsel can absolve the defendants before  
14 your Honor through statements that, in our view, defy  
15 credulity.

16 In terms of a carve-out, again, we think that a  
17 carve-out is contrary to law, and we are willing to work with  
18 them, provided our interests are protected.

19 MR. KORNFELD: I wanted to submit another nonprobative  
20 counsel statement, if I may. One of the threshold issues that  
21 we have is that we are not sure who the plaintiff is, that they  
22 even constitute a competitor under the statute. We have done  
23 our best due diligence up to a point to try to ascertain who  
24 they are, and from what we have determined till now, they are  
25 not in this marketplace. They don't even have an RN number to

I5N8FASC

1 sell goods in the United States. We have checked in the  
2 industry, with the factors, with the vendors; nobody knows who  
3 they are. That is just a point that I wanted to make, in terms  
4 of this dueling credibility, as to who is to blame here and who  
5 may not be to blame. But at this point, we are not even  
6 certain that Fashion Group is anything but a straw man for some  
7 other entity or individual who wants to be a competitor but  
8 isn't one.

9 THE COURT: I am prepared to rule.

10 This is an action for false advertising under the  
11 Lanham Act. The complaint also pleads unfair competition,  
12 unjust enrichment, and tortious interference with prospective  
13 economic advantage under New York law, along with violations of  
14 the General Business Law, Sections 349 and 350. The matter is  
15 on my calendar for purposes of a hearing on plaintiff's motion  
16 for a preliminary injunction.

17 The background facts are as follows: Plaintiff is a  
18 Delaware corporation with a place of business in New York City.  
19 Citing the complaint, Dkt. No. 1, paragraph 11. Plaintiff  
20 sells clothing and accessories to retailers and wholesalers,  
21 including to such retailers as Ross stores, Burlington stores,  
22 Boscovs, Amazon, and Gabriel Brothers. *Id.* paragraph 2. I  
23 will refer to these retailers collectively as "the retailers."  
24 Defendants are five clothing manufacturers and their owners.  
25 According to plaintiff, defendants have sold tens of millions

I5N8FASC

1 of dollars worth of clothing to the retailers. Citing the  
2 complaint, paragraphs 2 and 3.

3 I'm sorry, gentlemen. I am just going to have to take  
4 a brief recess. I will be back to you very shortly.

5 (Recess)

6 MR. FAUST: Your Honor, I was just speaking to the  
7 clerk. In the interim, I believe counsel reached somewhat of  
8 an agreement, if we could adjourn the hearing date for six  
9 weeks. In the meantime, if your Honor makes a referral, we  
10 will undertake to see if we can resolve the issues on the  
11 pending application.

12 THE COURT: All right.

13 Is that your wish?

14 MR. KORNFELD: Yes.

15 MR. LAZARUS: Your Honor, I would like to add one  
16 other request. I would like the opportunity to put in an  
17 affidavit before your Honor rules, if we can't work it out, so  
18 that there is a complete record. So if we can't resolve it,  
19 your Honor will have a full record upon which to make your  
20 ruling.

21 MR. FAUST: I have no objection, although I would like  
22 an opportunity to reply.

23 THE COURT: Sure.

24 MR. FAUST: My understanding, counsel advised me  
25 during the break before that they were receiving goods -- they

I5N8FASC

1 had previously disclosed there is about 100,000 units in the  
2 warehouse, that they are getting returns into the warehouse  
3 from the retailers counsel mentioned. The extension of the  
4 restraint applies to those goods as well.

5 MR. LAZARUS: Of course.

6 THE COURT: Just so the record is clear, I will  
7 continue the temporary restraining order in effect. I will  
8 adjourn the hearing for six weeks. I will do a referral -- I  
9 assume you're prepared to see the magistrate judge as soon as  
10 she is prepared to see you.

11 MR. FAUST: Yes, your Honor.

12 THE COURT: So I will do a referral today to  
13 Magistrate Judge Moses. I will ask her to see you as soon as  
14 she can. Hopefully, you can work the matter out in front of  
15 her. If you can't, we will have a date approximately six weeks  
16 hence. So that would bring us to, I guess, early July. We  
17 will issue an order setting the adjourned date. My deputy has  
18 stepped out, but I suspect it will be in the first or second  
19 week of July.

20 MR. FAUST: I am away the third week. So the first or  
21 second week.

22 THE COURT: We will try for the second.

23 MR. FAUST: Thank you.

24 THE COURT: Thank you, all.

25 (Adjourned)